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SUBJECT: MOFA OFFICIAL VOICES CONCERN OVER FTA STRATEGY

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Classified By: Ambassador J. Thomas Schieffer.
Reason: 1.4 (bd)

1. (C) Summary: ASEAN Plus Three countries will almost certainly launch free trade agreement (FTA) discussions later this year. That development will put Japan, which lacks a free-standing agreement with ASEAN, in a difficult negotiating position, according to the deputy director of the office in the Japanese Ministry of Foreign Affairs (MOFA) responsible for FTA affairs. Japan's own negotiations with ASEAN are likely to fail, largely due to the complexity of Japan's proposed framework for the agreement and its inability to match the concessions on trade in goods made by both Korea and China in their own agreements with ASEAN. Such failure could generate sharp political criticism of Japan's FTA policy and the bureaucrats who manage it. The official was not confident, however, that Japan's political leaders themselves would be willing to undertake the reforms and concessions needed to secure the policy's success. Nevertheless, Japan's bilateral discussions are proceeding apace. Notably, prospects for negotiations with Australia, controversial because Australia wants to include agriculture in any discussion, look brighter. End summary.

ASEAN Plus Three FTA Talks Not So Scary

2. (C) MOFA shares the view of the Ministry of Economy, Trade, and Industry (METI) that the endorsement by the member countries' leaders of an experts group report calling for FTA negotiations among the 13 countries of the "ASEAN Plus Three" is practically inevitable, according to Kenju Murakami, Principal Deputy Director of the Economic Partnership Division of MOFA's Economic Affairs Bureau. Speaking to econoff on June 9, Murakami

noted that the MOFA Economic Affairs Bureau had heretofore paid little attention to the ASEAN Plus Three exercise, which had fallen under the jurisdiction of the Ministry's Asian Affairs Bureau. The attitude in Asian Affairs, he indicated, was that "anything that promotes regional integration is good" and acknowledged that the Economic Affairs staff should have been following the situation more closely.

¶3. (C) MOFA, Murakami indicated, was not terribly disturbed by the likely recommendation coming out of the ASEAN Plus Three experts group: an agreement including only trade in goods among ASEAN Plus Three members but with consideration of both geographic and substantive expansion in the future. He added that the "ASEAN Plus Six" idea floated by METI Minister Nikai had become an issue only in April when the two of the three former METI officials serving on the experts group had begun to push the idea (presumably at METI's behest). According to Murakami, Deputy Foreign Minister for Economic Affairs Mitoji Yabunaka had indicated internally that the current content of the experts group report was sufficient to allow METI Minister Toshihiro Nikai to "save face" when it will almost certainly be endorsed at the ASEAN Plus Three economic ministers' meeting in August.

¶4. (C) Murakami believed ASEAN Plus Three talks would begin with a government-led study early in 2007 with formal negotiations beginning in 2008. Interestingly, Murakami said that, by chance, he had been the MOFA representative at the ASEAN Plus Three economic ministers' meeting in 2004 where the study group had been launched because all the more senior MOFA officials had been otherwise occupied.

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According to Murakami, former METI Minister Shoichi Nakagawa had pushed back hard on the original proposal, put forward by Chinese Commerce Minister Bo Xilai for a government-based study group, which led to the current "experts group" composed of academics from ASEAN Plus Three members.

Lack of Agreement with ASEAN Will Hamper Japan

¶5. (C) Japan will enter this process at a serious disadvantage, Murakami stressed, because, unlike China and Korea, it still lacked a trade agreement with ASEAN itself. The reason for this, he indicated, was that Japan's proposals for the framework of the agreement, which is based on existing bilateral arrangements with different ASEAN members, have been too complicated for most ASEAN officials to understand easily. (He admitted having difficulty himself in fully comprehending the Japanese proposal.) This delayed progress as ASEAN officials, tied up with a range of other bilateral initiatives, simply did not have the time to work out the implications of Japan's offered framework. In addition, because the leaders' statement launching the Japan-ASEAN talks disallowed the possibility of renegotiating elements of existing bilateral negotiations between individual ASEAN members and Japan, many countries had little reason to devote much time to the proposed ASEAN-Japan pact.

Meltdown of Japan-ASEAN Negotiations?

¶6. (C) Murakami was, in fact, strongly pessimistic that a Japan-ASEAN FTA could be achieved. Japan, he

confessed, was offering less coverage of trade in goods in its current proposal to ASEAN than either China or Korea already have provided in their respective agreements with ASEAN. China and Korea have covered 98-99 percent of existing trade in goods, he said, while Japan's proposal only covered 92 percent, with agriculture largely excluded. Murakami predicted that this discrepancy would become much more obvious at the time of the ASEAN Plus Three and East Asian Summit (EAS) meetings at the end of the year. Japan had hoped that it could compensate for its relatively weak offer on trade in goods with promises of ODA, but this was a difficult commitment to maintain, Murakami said. In addition, arguments like those made by MOFA Economic Affairs Bureau Director General Kaoru Ishikawa that the investment benefits for ASEAN of a Japan-ASEAN "economic partnership agreement" would make up for the lack of liberalization in trade appeared to be increasingly less credible to the ASEAN negotiators. (Murakami added the Indian representatives in the ongoing Japan-India FTA study group discussions had dismissed the investment argument early on, and he believed that achieving an actual FTA with India would be difficult, if not impossible.)

Bureaucrats Fear Scapegoating If ASEAN Talks Fail

17. (C) His biggest concern, Murakami said, was that Japan's FTA policy would become the target of domestic political criticism following the EAS as the degree to which the Japanese had fallen behind China and South Korea in their negotiations with ASEAN became more apparent. The Foreign Ministry had come under harsh criticism from the LDP leadership, notably Policy Research Committee Chairman Hidenao Nakagawa, earlier this year for the apparent lack of progress in Japan's FTA talks. Murakami expected more of the same could be

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forthcoming after the 2006 EAS meeting.

Reform Needed for Success Remains Unlikely

18. (C) The crux of the problem, he confessed, was Japanese refusal to liberalize its agricultural trade. Nevertheless, the politicians would likely prefer to bash the bureaucracy than to challenge the Japanese farm lobby, with the end result possibly being the creation of a USTR-like trade negotiating body to respond to the criticisms without actually resolving the basic policy problem. According to Murakami, hopes that Japan's entry into FTA negotiations might spur domestic economic structural reform also had not been realized. Unless the negotiations involved a critical strategic partner (i.e., the United States) or, as in the WTO, were global in nature so that Japan risked isolating itself from the rest of the world if it did not yield, domestic constituencies, particularly agriculture, could effectively block possible concessions, Murakami stated. He had little hope that any of the current contenders to succeed Prime Minister Koizumi could or would take on the domestic vested interests in a way that would allow Japan to make the concessions needed to pursue serious, high quality FTAs with its trading partners.

Bilateral Efforts More Positive; Australia FTA Talks Possible

19. (C) Murakami was far more upbeat over Japan's

bilateral FTA negotiations. Although the talks with Korea remained suspended, other discussions were progressing or had hope to progress, albeit at varying paces. Plans for a meeting between the Japanese Prime Minister and the Philippine President to commemorate the fiftieth anniversary of the resumption of diplomatic relations hold the potential to advance the stalled negotiations with the Philippines, although Murakami cautioned that even the President herself might not be able to control the penchant of her government's negotiators to seek to reopen issues. The agreement with Thailand had largely been vetted through the Japanese government's legislative mechanism and only awaited a resolution to the uncertain political situation in Thailand so that it could be signed. The negotiations with Indonesia had run into a hitch because Japan sought investment provisions that would require amending Indonesia's foreign investment law. However, these talks faced no other major substantive obstacles. Discussions with the Chileans were proceeding smoothly; Murakami praised their expertise and tact. The Chileans, he added, might, however, be under a false assumption that the Japanese negotiators are under more political pressure to conclude an agreement quickly (because of the ties of the Japanese Ambassador in Santiago to the Prime Minister's faction in the ruling party) than they, in fact, are.

¶10. (C) More surprising was Murakami's relative optimism over the prospects for FTA negotiations with Australia. Heavyweights within the LDP were becoming increasingly supportive of the idea of a Japan-Australia FTA. As a result, the opponents of starting talks in the Ministry of Agriculture, Forestry, and Fisheries and in the Diet have found themselves more and more isolated. Murakami speculated that negotiations could be announced as early as an expected session between the Japanese and Australian Prime Ministers at this year's APEC Leaders' Meeting.

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Comment

¶11. (C) Murakami seemed significantly more downbeat in this discussion than in our previous exchanges. Should his fears of the political fallout over the failure of Japanese economic diplomacy that might come to light with the onset of ASEAN Plus Three FTA talks be realized, the key question is whether Japan's leaders will learn from the experience or hunker down in denial, thus by default paving the way for what they ostensibly fear most, a Chinese growing influence in the region.
SCHIEFFER